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## 2018-2019 Restaurant Industry Performance and the JHFM Index

Atul Sheel

University of Massachusetts - Amherst, [sheel@isenberg.umass.edu](mailto:sheel@isenberg.umass.edu)

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## 2018–2019 Restaurant Industry Performance and the *JHFM* Index

Restaurant industry sales continued their moderate growth between 2018 and 2019. According to the National Restaurant Association (NRA) reports, restaurant industry revenues are projected at approximately \$825 billion in 2018, representing 4% nominal growth vis-à-vis 2017. Regardless of growth trends from the NRA, experts continue to remain cautious about the industry's growth in 2019 amidst mixed economic signals.

Table 1 summarizes the trend of stock returns for key restaurant firms until March 20, 2019. The 1-year average return of restaurant stocks represented by the *JHFM* Restaurant Industry Index (16.5%) surpassed the 1-year average return for the S&P 500 Index (6.51%) by almost 10%. Over the last year, quick-service, quick-service specialty, family dining, and casual dining restaurants (16.68%, 16.8%, 12.46%, and 16.96% annual returns, respectively)

**Table 1.** 2019 Restaurant Stock Return Trends, Quarter 1

Stock Name	Cap (Millions)	YTD%	1-Month	3-Month	1-Year	3-Year	5-Year
QUICK SERVICE RESTAURANTS							
Biglari Holdings Inc	281	22.77	4.38	−0.10	−67.48	−27.36	−22.80
Carrols Restaurant Group Inc	376	4.78	10.98	12.07	−15.14	8.34	5.34
Domino's Pizza Inc	10,215	0.57	−10.68	4.19	10.27	24.85	26.84
Jack In The Box Inc	2,010	0.84	−3.27	−2.64	−5.50	8.34	6.68
McDonald's Corp	140,137	3.77	2.80	2.85	17.89	16.27	16.00
The Wendy's Co	3,810	6.66	−6.93	1.71	−1.49	18.92	14.23
Yum Brands Inc	30,409	8.42	4.99	10.59	22.64	18.20	12.32
<i>JHFM</i> Index—Weighted Average Quick Service Restaurants		3.85	3.09	6.07	16.68	15.98	13.78
QUICK SERVICE SPECIALTY RESTAURANTS							
Chipotle Mexican Grill Inc	18,400	11.51	2.05	9.17	−22.31	−2.31	0.25
Dunkin' Brands Group Inc	5,913	12.17	3.49	8.62	21.86	17.50	8.22
Starbucks Corp	88,768	11.40	1.68	11.99	24.80	7.79	14.92
<i>JHFM</i> Index—Weighted Average Quick Service Specialty Restaurants		11.46	1.83	11.35	16.98	6.65	12.18
<i>JHFM</i> Index—Average Quick Service and Quick Service Specialty Restaurants		6.72	2.61	8.06	16.80	12.47	13.18
FAMILY DINING RESTAURANTS							
Cracker Barrel Old Country Store	3,765	−1.26	−9.11	−5.47	3.33	5.68	13.85
Denny's Corp	1,107	10.73	1.82	11.28	15.21	20.46	21.86
Dine Brands Global Inc	1,492	27.37	−1.98	13.71	33.47	0.39	4.91
<i>JHFM</i> Index—Weighted Average Family Dining Restaurants	6,364	7.54	−5.54	1.94	12.46	7.01	13.15
CASUAL DINING RESTAURANTS							
Brinker International Inc	1,640	1.25	−2.20	−8.28	21.59	1.15	−1.13
Darden Restaurants Inc	13,632	11.28	−0.87	10.42	20.81	20.55	21.30
Red Robin Gourmet Burgers Inc	381	0.03	−10.99	−2.42	−51.73	−22.96	−16.69
Texas Roadhouse Inc	4,335	1.79	−7.31	0.50	4.98	14.16	19.71
<i>JHFM</i> Index—Weighted Average Casual Dining Restaurants		8.18	−2.57	6.49	16.06	16.74	18.39

(continued)

**Table 1.** 2019 Restaurant Stock Return Trends, Quarter 1 (*continued*)

Stock Name	Cap (Millions)	YTD%	1-Month	3-Month	1-Year	3-Year	5-Year
FULL-SERVICE RESTAURANTS							
BJ's Restaurants Inc	991	-5.99	-9.40	-12.56	9.47	3.26	6.46
Cheesecake Factory Inc	2,168	7.03	-0.98	6.86	-0.69	-2.48	0.92
Kona Grill Inc	14	-1.90	17.58	-28.67	-50.23	-56.41	-45.34
Ruth's Hospitality Group Inc	765	11.48	3.90	11.29	5.64	14.05	17.09
JHFM Index—Weighted Average Full Service	3,938	4.59	-2.08	2.71	2.92	1.98	5.29
JHFM Index—Weighted Average Family, Casual and Full-Service Restaurants		7.58	-3.13	5.04	13.59	12.78	15.59
JHFM Index—Restaurant Industry Weighted Average		6.79	2.09	7.78	16.50	12.50	13.40
S&P 500		13.52	2.10	13.57	6.51	13.67	11.03

**Source:** Morningstar Investment Research Center.

**Note:** Data until March 20, 2019.

performed significantly better than the market (6.51% annual return). Restaurants such as Yum Brands and quick service specialty outlets such as Dunkin and Starbucks Corp (22.64%, 21.86%, and 24.8% annual returns, respectively) contributing most toward this buoyancy. Such a trend suggests continued consumer preference for quick service and casual dining during 2018. Full-service restaurants on the other hand, yielded significantly less annual returns (2.92%) in 2018 relative to the market (6.51%). On the positive side, such performance of full-service outlets was significantly better than last year (-4.61% annual returns). Firms such as Kona Grill continued as clear laggards in this group. A stronger consumer preference for more economical quick-service restaurants relative to more upscale full-service dining places continues to suggest growing caution in the market's expectation about the economy and restaurant industry performance.

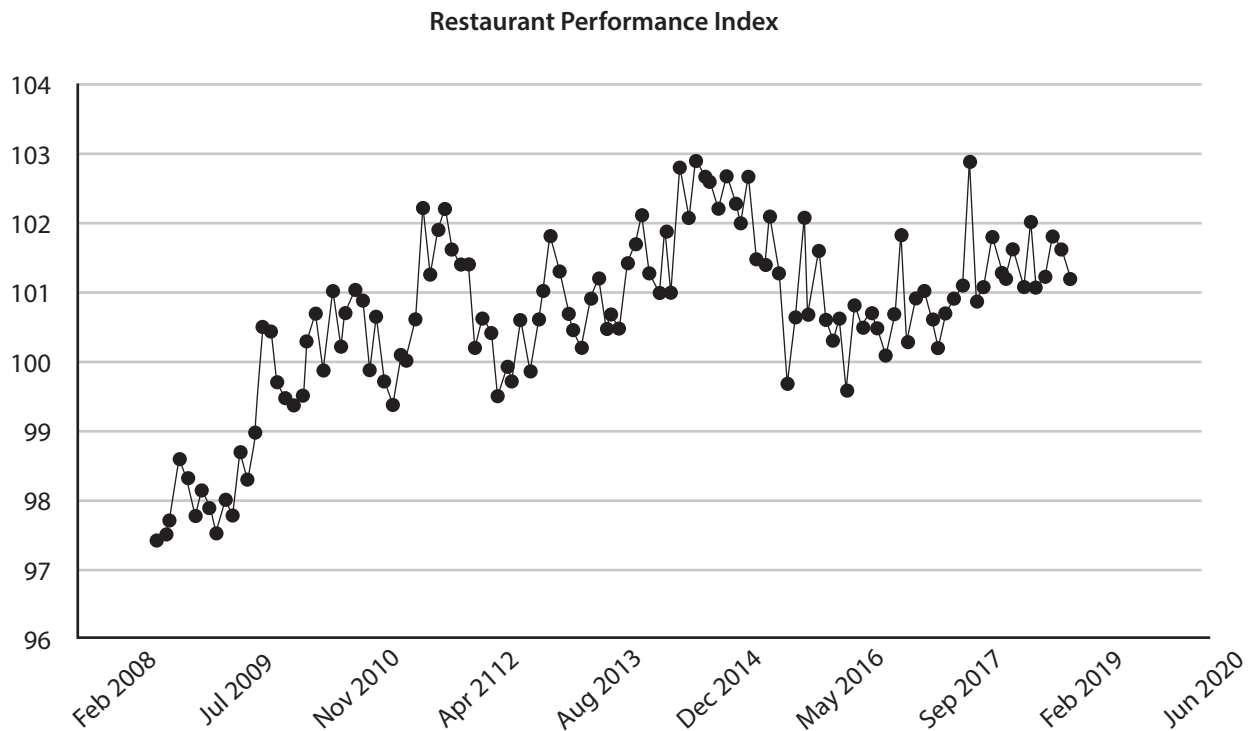
Current trends in the NRA's Restaurant Performance Index (RPI) support such cautious outlook for restaurant industry performance in the near future. RPI is a combination of the current situation index (derived from recent-period restaurant industry indicators such as same-store sales traffic and labor and capital expenditures) and the expectations index (derived from a forward-looking or 6-month outlook for restaurant industry indicators) and is based on the NRA's monthly survey of U.S. restaurateurs. RPI values above 100 indicate expansion, while values below 100 suggest a period of contraction for key restaurant industry indicators. Table 2 summarizes recent trends in the NRA's statistical barometer, the RPI for the January 2009 to January 2018 period. Figure 1 presents the graph for RPI trends until January 2019.

RPI values in Figure 1 are suggestive of a stagnating trend for restaurant industry indicators since

**Table 2.** Restaurant Performance Index (RPI) Trend, January 2009–January 2019

Month	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Jan	97.4	98.3	100.2	101.3	100.6	100.7	102.7	100.6	100.1	100.9	101.2
Feb	97.5	99	100.7	101.9	99.9	100.5	102.6	102.1	100.7	101.1	
Mar	97.7	100.5	101	102.2	100.6	101.4	102.2	100.7	101.8	101.8	
Apr	98.6	100.4	100.9	101.6	101	101.7	102.7	101.6	100.3	101.3	
May	98.3	99.7	99.9	101.4	101.8	102.1	102.3	100.6	100.9	101.2	
Jun	97.8	99.5	100.6	101.4	101.3	101.3	102	100.3	101	101.6	
July	98.1	99.4	99.7	100.2	100.7	101	102.7	100.6	100.6	101.1	
Aug	97.9	99.5	99.4	100.6	100.5	101.9	101.5	99.6	100.2	102	
Sep	97.5	100.3	100.1	100.4	100.2	101	101.4	100.8	100.7	101.1	
Oct	98	100.7	100	99.5	100.9	102.8	102.1	100.5	100.9	101.2	
Nov	97.8	99.9	100.6	99.9	101.2	102.1	101.3	100.7	101.1	101.8	
Dec	98.7	101	102.2	99.7	100.5	102.9	99.7	100.5	102.9	101.6	

**Source:** National Restaurant Association.



**Figure 1.** National Restaurant Association's Restaurant Performance Index.

**Note:** Values greater than 100 = expansion; values less than 100 = contraction.

the second half of 2018. In January 2019, the performance index dropped 0.4% to 101.2 from a level of 101.6 in December. The current situation index dropped 1.1% to 100.7. This was its lowest level in four months. Even though the expectations index rose 0.3% in January to 101.7 vis-à-vis 101.4 in December, its recent trend has been suggestive of continued uncertainty among restaurant professionals about business conditions in the near future.

The cautious outlook for the restaurant industry in the coming months seems reasonable given the recent increases in labor costs spurred by minimum wage law changes and mixed signals about our national economy. There seems to be a growing concern among experts about a sharp slowdown in the U.S. economy. The average forecast for GDP growth in 2019 is 2.3% (relative to 3.1% in 2018), a trend that will diminish further to 2% in 2020. On the one hand, the positive signals from the equity markets in the first of 2018 was encouraging for our investors. On the other, trends such as increasing volatility in the stock markets, speculations about further

interest rate hikes, and politico-economic uncertainties accompanied with government shutdowns make some experts wonder whether the post-2009 economic expansion, now in its tenth year, is vulnerable and getting too old. Given such a scenario, it will be interesting to see whether the performance of the restaurant industry in 2019 will outpace its recent trend in 2018.

Atul Sheel

*University of Massachusetts, Amherst*

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